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NAVAL POSTGRADUATE SCHOOL

MONTEREY, CALIFORNIA

MBA PROFESSIONAL REPORT

A COST-BENEFIT ANALYSIS BETWEEN THE CURRENT NAVAL OFFICER RETENTION BONUS PLAN AND THE ENLISTED RETENTION BONUS PLAN

June 2016

By: **Donald M. Freeman**
 Nicholas M. Zerler

Advisors: **Amilcar Menichini**
 Bryan Hudgens

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**A COST-BENEFIT ANALYSIS BETWEEN THE CURRENT NAVAL
OFFICER RETENTION BONUS PLAN AND THE ENLISTED RETENTION
BONUS PLAN**

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Submitted in partial fulfillment of the requirements for the degree of

MASTER OF BUSINESS ADMINISTRATION

from the

**NAVAL POSTGRADUATE SCHOOL
June 2016**

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A COST-BENEFIT ANALYSIS BETWEEN THE CURRENT NAVAL OFFICER RETENTION BONUS PLAN AND THE ENLISTED RETENTION BONUS PLAN

ABSTRACT

The current fiscal constraints and increased operational tempo over the last decade have placed a strain on the U.S. Navy and the potential retention of sailors. On September 12, 2014, in an interview with the U.S. Naval Institute, Vice ADM Bill Moran, Deputy Chief of Naval Operations for Manpower, Personnel, Training, and Education, stated that he has seen signs of a looming sailor exodus. The exodus could be as bad as the post-Cold War period and just before the terrorist attacks of September 11, 2001. This project is a cost-benefit analysis between the current officer-retention bonus plan and the enlisted-retention bonus plan. To aid in the improvement of retention-targeted bonuses across the Navy, our research focuses on the retention rates and effectiveness of current bonus structures, the timing of those bonuses, and internal and external factors affecting retention.

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LIST OF ACRONYMS AND ABBREVIATIONS

ACN	Average Cost to the Navy
ACRB	Aviation Command Retention Bonus
DOD	Department of Defense
FY	Fiscal Year
NPR	Normalized Pay Ratio
RER	Retention Effectiveness Ratio
U.S.C.	United States Code

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I. INTRODUCTION

People are definitely a company's greatest asset. It doesn't make any difference whether the product is cars or cosmetics. A company is only as good as the people it keeps.

—Mary Kay Ash,
American businesswoman

Experienced and skilled manpower is the key to the effectiveness of today's United States. If the Navy fails to retain its troops that have been forged, tested, and battle-proven over the last 15 years, the Navy as a whole will be degraded. The experiences and combat leadership gained since the September 11, 2001, attacks are invaluable to the future success of the Navy and the training of junior sailors. Outside the invaluable cost associated with losing proven sailors are the measureable costs of training and producing competent sailors to replace the Navy's personnel losses.

A. BACKGROUND

On November 20, 2014, an interview with the chief of Naval Personnel, Vice Admiral Bill Moran, focused specifically on the retention of U.S. Navy personnel. After 15 months as the chief of Naval Personnel, Admiral Moran said that he

has seen signs of a looming sailor exodus that could be on par to retention woes following the Cold War and just before the terrorist attacks of September 11, 2001. . . . We've had historic retention levels for the last several years and with historic highs comes—at some point—a turn in the other direction. (LaGrone, 2014, p. 1)

As the head of what civilian companies would refer to as Human Resources, comments such as this one should cause concern about the potential impending loss of human capital for the Navy.

The problem of retention is a global phenomenon that permeates every type of organization. Towers Watson (2012) makes the following point: “Ask any business or human resources executive to identify one of their top concerns in undertaking a

corporate transaction, and retaining talent invariably surfaces” (p. 2). The loss of personnel can be attributed to factors ranging from personal decisions, such as family issues, to economic change and personal marketability to other companies. In understanding retention, no single cookie-cutter model will apply to all. The requirements needed to retain one person will invariably be different from the requirements needed to retain a different individual. Compounding the matter of differences between individual employee retention requirements are the differences in corporate retention requirements, ranging from economic factors to promotion availability.

In this study, we look specifically at the current U.S. Navy officer and enlisted retention bonuses, allowing for the understanding that they are only a single piece of the entire puzzle required to maintain retention levels. Towers Watson’s (2012) study on *“Retaining Talent after a Transaction”* states it eloquently: “Recognize that money is necessary, but insufficient to create the emotional connections to the new organization that ultimately prove a ‘stickier’ bond over time” (p. 5).

B. PURPOSE STATEMENT

The goal of this research is to compare the current U.S. Navy officer retention bonus structure to the current U.S. Navy enlisted retention bonus structure and their relative individual effectiveness over the past five years. In particular, the focus is to identify attributable differences between the two that lead to a more effective use of U.S. taxpayer money and get more “bang for the buck.” Timing, amount, and structure of the bonus; obligation incurred by taking the bonus; and external factors are considered in the research.

C. RESEARCH QUESTIONS

The focus of this project is to answer the primary question and supporting questions.

1. Primary Question

What are the fundamental cost-benefit differences between the current U.S. Navy officer and enlisted retention bonus plans?

2. Secondary Question

In order to address the primary question, several secondary questions must also be answered. These questions include the differences in timing of bonuses, the length of time incurred when accepting a bonus, and external factors contributing to whether or not the bonus is accepted.

D. RESEARCH BENEFITS AND LIMITATIONS

This project's scope focuses on officer and enlisted service members in the U.S. Navy serving in the fields of aviation, Naval Special Warfare, and surface warfare. Currently, there are multiple retention bonuses given across the U.S. Navy and other services. Each service, guided by law, has the ability to select which career fields are eligible, which years to target personnel for retention, how long to offer bonuses up to a maximum dollar amount set by law, and which ranks are offered retention incentives. Retention bonuses are considered a force-shaping tool within the U.S. Navy, and officers in a specific field may receive a bonus when enlisted members in the same field, who are fully manned, do not receive an equivalent form of incentive, and vice versa. To understand how the U.S. Navy's program works, this study reviews various defense-focused articles, laws, and literature. Research studies from the civilian sector are incorporated to define best practices and capitalize on previous retention studies.

The data obtained for this project is limited to the last five years and falls under the previous pension retirement system. When the new military retirement plan takes effect January 1, 2018, the effects of retention bonuses will be affected and new data will need to be gathered to address the cost-benefits under a new system.

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II. LITERATURE REVIEW

The study of a retention program or benefit cannot be accomplished without the understanding of human behavior theories, the historical results of similar programs, and the rules and regulations of the program being evaluated.

A. HUMAN BEHAVIOR THEORIES

There are many theories that might help explain the retention of employees. Some of the most recognized human behavioral theories are Maslow's hierarchy of needs, Herzberg's motivation-hygiene (two-factor) theory, McGregor's X Y theory, McClelland and Johnson's need for achievement theory, and Vroom's expectancy theory. These theories do not directly state why, or why not, a specific individual might accept a retention bonus, but one can infer from the theories a basis for a logical rationale of why a certain choice was made or will be made.

Abraham Maslow (1971) developed his theory based off his belief that all men were inherently good and driven by a hierarchical series of needs. This system of needs involves five categories of motives, requiring the base motives to be met before an individual can move up the categories and attempt to satisfy higher level needs. Hamner and Organ (1978) described the general levels of needs in hierarchical order as follows:

1. Physiological needs: food, water, sex, and shelter
2. Safety needs: protection against danger, threat, and deprivation
3. Social needs: love, friendship, belonging, association, and acceptance
4. Ego needs: achievement, adequacy, strength, and freedom
5. Self-actualization needs: the need to realize one's potential through continued self-development and the desire to achieve (pp. 137–138)

Where a retention bonus falls into Maslow's hierarchy of needs is individually dependent. For some employees, the retention bonus can address physiological needs, as the additional money gained from the bonus is essential to obtaining food, water, sex, or shelter. At the same time, some senior-level executives and wealthy employees might not

need additional income. A retention bonus for these employees will most likely address ego or self-actualization needs.

Herzberg's motivation-hygiene theory, also known as the two-factor theory, focuses on the accomplishment obtained from the completion of work and the sources of motivation or satisfaction that lead to that end (Herzberg, 1966). Based on the conclusions of his research, he surmised that motivating factors, or satisfiers, and hygiene factors, or dis-satisfiers, influence work satisfaction (Herzberg, Mausner, & Snyderman, 1959, pp. 80–83). Herzberg defined *satisfiers* as “achievement and recognition, work itself, responsibility, and advancement and salary” (1959, p. 59). The *dis-satisfiers* are defined as company policy, supervision, working conditions, interpersonal relations, salary, status, job security, and personal life. Though these two variables appear to be opposites, they are not necessarily directly related. Herzberg says, “A deprivation in hygiene factors can lead to job dissatisfaction, but their amelioration does not lead to job satisfaction” (Herzberg, 1976, p. 61).

McGregor's theory proposes that people are capable of self-direction and creativity if they are properly motivated. His theory Y viewpoint, based off Maslow's ultimate need of self-actualization, believed motivation is rooted in four factors: self-direction, self-control, motivation, and maturity (McGregor, 1960). A retention bonus would fall under the motivation factor as a monetary incentive, but to be effective it must work in conjunction with the other three factors or be so significant that it would cancel the effects of the other factors.

McClelland and Johnson's need for achievement theory proposes that when a person develops a strong need for something, that need motivates the person to adapt their behavior in order to obtain satisfaction of that need. McClelland and Johnson believe that needs are learned and adapted from a person's environment and their interactions within that environment. Based off their research, McClelland and Johnson (1984) proposed that a high need for achievement involves several factors, including situations involving personal responsibility, moderate goals and calculated risks, and appropriate feedback.

Vroom's theory assumes that the "choices made by a person among alternative courses of action are lawfully related to psychological events occurring contemporaneously with the behavior" (Vroom, 1964). Vroom further refined three components that he believed were instrumental to why people act and react the way they do: Valence, Instrumentality and Expectancy. *Valence* is defined as the overall worth or cost a person places on the outcome of a particular action. *Instrumentality* is defined as an action that will produce, or the belief that an action will produce, a specific value. *Expectancy* is defined as the perception that an action will result in the achievement of desire performance goals. A person's choices are therefore motivated by a series of choices between different courses of actions and the expected results of those choices taken in context of the decision-maker's beliefs and attitude. Accepting a retention bonus is merely one course of action out of many employees must weigh against what they believe will be the outcome of all other courses of actions.

B. RETENTION STUDIES

In the following section, we review several civilian retention studies and their results.

1. Compensation Best Practices Report

In 2015, PayScale published their sixth *Compensation Best Practices Report*, a comprehensive survey reflecting the attitudes and perceptions of employers with respect to business issues. The 2015 survey compiled responses from 5,530 business leaders across all company sizes and industries. The report noted that "retention remains a top worry for the third year in a row, as employers feel challenged to keep top performers in an increasingly competitive talent market" (PayScale, 2015, p. 2)

The companies that are concerned about retention have focused their efforts on development and learning (60% of all companies) as their primary means of retention. Only 7% of companies were willing to increase wages as a retention strategy and 57% of companies kept pay increases focused on merit. The top two reasons for people leaving their companies have remained the same since 2011: "personal reasons" and "seeking

higher pay elsewhere” (21% for both; PayScale, 2015). Twenty-two percent of all employees lost in 2014 were due to retirement (6%) and involuntary terminations (16%). Eighty-eight out of 100 employees are being lost to a cause that a company can affect, if it has the means and chooses to. Bonuses remain a popular component of compensation plans with 76% of employers paying them out. The most popular types of bonus were an individual performance bonus followed by a spot bonus. A military-type retention bonus was not on the list as a means of retaining high-performing employees (PayScale, 2015).

2. Global Mergers and Acquisition Retention Survey Results 2014

Towers and Watson published their Global Mergers & Acquisition Retention survey results in 2014. The key findings of the study were based off six questions:

1. Who is targeted for retention?
2. When are retention agreements signed?
3. What information is being used to identify retention agreement recipients?
4. What is the most common type of retention award?
5. How are retention payouts set, measured, and awarded?
6. Does the retention rate remain high following the conclusion of the retention plan? (Towers Watson, 2014, p. 3).

This study concluded that personnel targeted for retention had a direct ability to affect the success of the transaction and company. High potential, job function, job level and job title rounded out the top five reasons personnel were targeted for retention.

In brief, this study found that slightly more than half of senior management and leaders were asked to sign their retention agreements at or before the initial merger agreements were signed. Sixty six percent of other employees were also asked to sign at the same time. In a majority of all cases, senior leaders (76%) and unit leaders (50%) were asked to identify personnel for retention by the purchasing company. The most common type of retention award was a cash bonus (generally measured as a percentage of base salary). These agreements typically used a combination of pay-to-stay and pay-to-perform for senior leaders, but nonexecutives were most likely to receive time-based

agreements. Sixty-eight percent of employers reported that employees who signed retention agreements stayed for the full retention period but dropped to 43% in the following year (Towers Watson, 2014, p. 6).

The survey also provided six key components to companies that maintained a high retention rate:

- They are more likely than other companies to identify eligible employees for retention based on their ability to affect the success of the transaction.
- They are more likely to tap into the target's senior leadership for information about which employees to keep.
- They are significantly more likely than low-retention companies to include management discretion.
- They focus on cash bonuses rather than other forms of retention awards.
- They are less likely than low-retention companies to rely on data from the target's HR systems to identify retention candidates.
- They offer retention target value that is higher than low-retention acquirers (Towers Watson, 2014, p. 5).

3. WorldatWork 2014 Survey

In March 2014, WorldatWork members conducted a survey to obtain information and establish trends associated with bonus programs and their practices. The survey was sent to 5,355 employees and 811 responses were received, of which 713 responses were included in the data. The data encompassed public sector, private sector (publicly traded), private sector (privately held), and nonprofit/not-for-profit organizations.

Since 2001, companies have hovered between 25% and 34% for retention bonus usage. Retention bonus programs still remain the least common type of bonus in 2014, but have spiked to 51% utilization.

Seven out of 10 organizations base the decision to award a retention bonus on management discretion and most employee groups are eligible to receive a retention bonus. A flat dollar amount is the most common calculation method and a lump sum payment is the most common practice.

However, “regular interval payments” is a method rising across all categories while the “progressive timing method” is down. Over 70% of companies surveyed across all positions do not tie a bonus to length of service when calculating eligibility to receive a retention bonus. (WorldatWork, 2014)

This is in direct contrast to the military’s retention bonus structure. The decision to award a bonus is written in law and further defined by rank, time of service, specialty, and manning needs of the Navy.

4. Toward Improved Management of Officer Retention: A New Capability for Assessing Policy Options Report

As Michael Mattock observes, “Each branch of the U.S. armed services must actively manage officer retention to ensure meeting its officer personnel force requirements” (RAND, 2014). The Rand Corporation, sponsored by the Office of the Under Secretary of Defense for Personnel and Readiness, assessed alternative policies to enhance retention of U.S. military officers through an empirically based estimate of behavioral response to policy. Specifically, the Department of Defense (DOD) asked Rand to establish a capability to enable the DOD to “simulate or predict the effects that alternative policies can have on officer retention, as well as the [cost] of those policies” (RAND, 2014, p. iii)

Rand’s simulation studied the steady-state effect of a bonus given at a specific year of service (RAND, 2014, p. 21). Even though the current bonus systems for both officer and enlisted in the U.S. Navy cover multiple years, the study showed a positive effect for just a single year bonus. The effect of the single year bonus was not confined to just that year. Rand found that the preceding and post years also had been affected with positive retention. In the simulation, a \$20,900 bonus at 10 years of service would result in a 10% increase at the 10-year mark. The effect of a bonus is greatest at the targeted year of service, but the single bonus results in a significant effect from three years prior and onward, as shown in Figure 1.

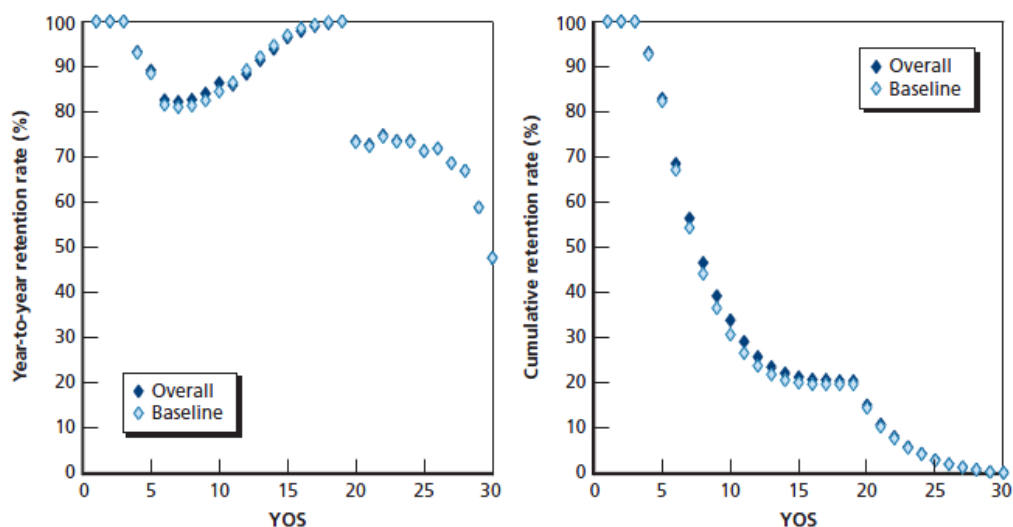


Figure 1. Simulated Effect of a \$20,900 Bonus in the Tenth Year of Service for the Army. Source: RAND (2014).

5. The Retention Effects of High Years of Service Cliff-Vesting Pension Plans

As Jesse Cunha, Adam Crockett, and Amilcar Menichini (2014) observed, “Our findings show that the removal of a high YOS cliff-vested had important consequences for personnel retention in the Australian military” (2014, p. 8). Attrition was found to have a high slope until approximately 10 years of service, where it gradually leveled out. Retention levels were higher for those service members under a cliff-vested retirement plan but had a very similar slope as non-cliff-vested personnel up to the 20-year mark or vesting date of the cliff-vested retirement. At the vesting date, there was a drastic drop in retention slope for those on the cliff-vested retirement plan, while those not on a cliff-vested retirement plan maintained a relatively constant slope, as shown in Figure 2 (Cunha et al., 2014).

This study is essential in the understanding of an assumption for this project. Because the data for this project covers the previous five years, it will not take into account the U.S. military’s changing retirement system. When the new system, which is a significantly reduced cliff-vested pension combined with a 401k plan, takes effect on

January 1, 2018, new data will need to be gathered to obtain the cost benefits of retention bonuses under a different overarching system.

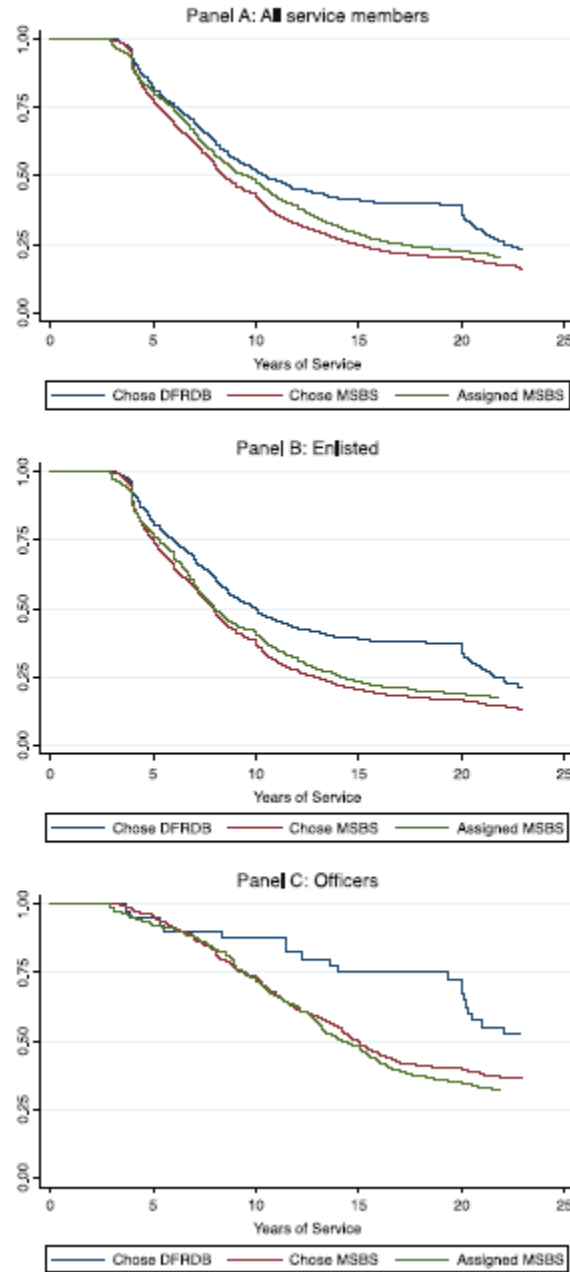


Figure 2. Kaplan-Meier Survival Estimate. Source: Cunha et al. (2014).

C. GUIDING PRINCIPLES AND LAW FOR U.S. NAVY BONUSES

In the following discussion, we address the laws governing the U.S. Navy's bonus plan.

1. United States Code (U.S.C.) Title 10

All military bonuses are prescribed in detail by law. These laws are further specified based on the type of bonus, service of recipient, duty status, and paygrade. Under each section are the requirements and limitations for each respective bonus. As an example, 10 U.S.C. § 301(b) covers the Special pay: aviation career officers extending period of active duty and is the general bonus authority for aviation officers in the U.S. Navy.

Each law covers the type and date a bonus is authorized, the officers/enlisted covered by the bonus, amount of the bonus, proration, payment options, additional pay criteria and exemptions, repayment eligibility/ineligibility, time constraints, and regulations regarding the bonus and required reports. This is in stark contrast to civilian sector bonus structures. Though the civilian sector structures their bonuses, they are more commonly used as a means of rewarding employees and if used for retention are run more by management. U.S. Navy bonuses are viewed as a force-shaping tool to retain specific skill sets and to maintain manning in specified sub-specialties. As written in 10 U.S.C. § 301[b]:

- Aviation and Naval Special Warfare officer retention bonuses are capped at \$25,000 per year, for a specified period. Enlisted bonuses (a) may not exceed \$50,000 for a minimum two-year period of obligated service agreed to under subsection (d);
- A bonus paid under paragraph (3) of subsection (a) may not exceed \$30,000 for each year of obligated service in a regular component agreed to under subsection (d);
- A bonus paid under paragraph (3) of subsection (a) may not exceed \$15,000 for each year of obligated service in a reserve component agreed to under subsection (d); and

- A bonus paid under paragraph (4) or (5) of subsection (a) may not exceed \$10,000. The period and structure of bonuses changes based on the needs of the Navy. All officers and enlisted are capped at a max of \$200,000 for active duty and \$100,000 for reservists. An officer is limited to O-1 through O-6 with Flag officers being ineligible for bonuses. (10 U.S.C. § 301[b], 2012)

D. U.S. UNEMPLOYMENT AND MEDIAN HOUSEHOLD INCOME

In the following section, we take a look at the effects of unemployment and a changing median household income.

1. Unemployment Rates

The availability of alternate employment opportunities is a very important factor to consider and must be accounted for in establishing, maintaining, and monetizing a retention bonus structure. However, modeling civilian unemployment in with other characteristics has been found to introduce multicollinearity. Warner (1986) observes,

A second source of sensitivity may arise if variables that affect civilian wages are also entered directly in the retention function. I am not sure whether they should or should not be included. I will only comment that I have done it both ways, and I have found maximum-likelihood estimates of pay elasticities to be much more sensitive to inclusion or exclusion of these variables than estimates based on a grouped logit approach. (pp. 222–223)

For the purpose of this study, we assume that there is a direct relationship between the civilian unemployment rate and U.S. Navy retention. A decreasing unemployment rate will cause a decrease in U.S. Navy retention. The U.S. unemployment rate for the period covered in this paper is listed in Figure 3.

Labor Force Statistics from the Current Population Survey

Series Id: LNS14000000
Seasonally Adjusted
Series title: (Seas) Unemployment Rate
Labor force status: Unemployment rate
Type of data: Percent or rate
Age: 16 years and over

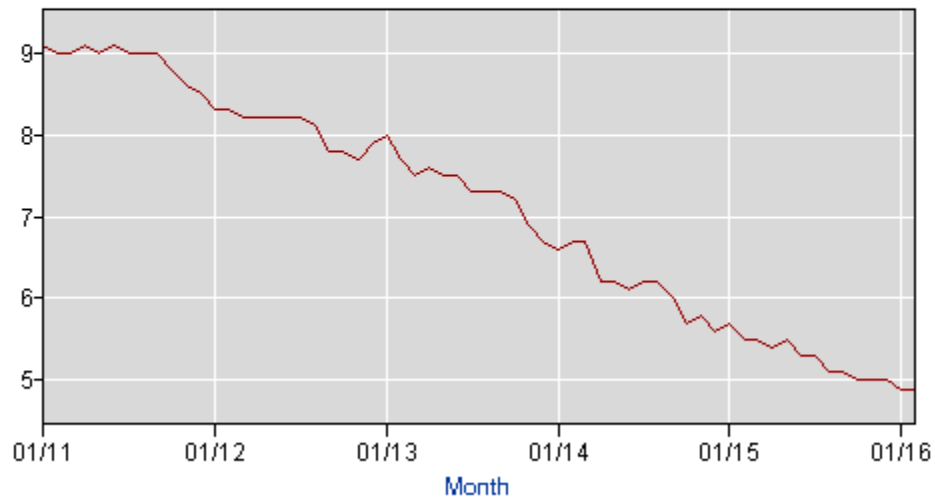
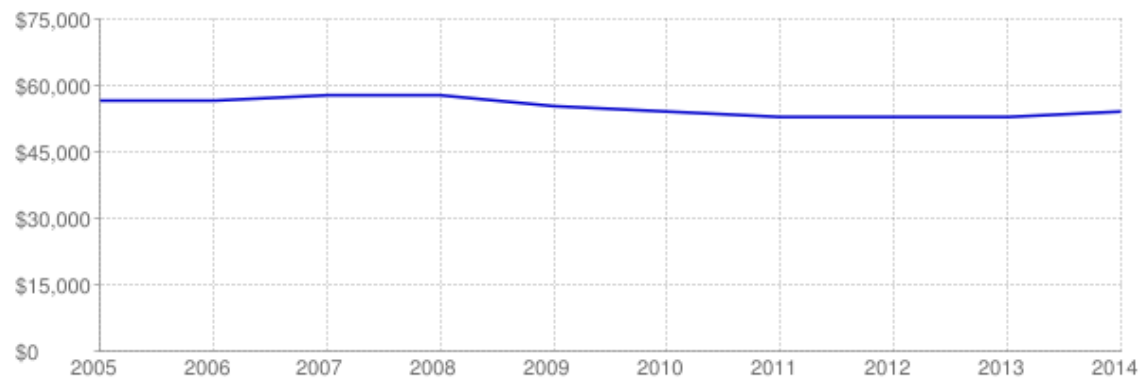


Figure 3. Labor Force Statistics from the Current Population Survey. Source: U.S. Bureau of Labor Statistics (2016).

2. Median Household Income

In order to reduce multicollinearity in our study, we assume that there is a direct relationship between the median household income rate and U.S. Navy retention. A decreasing medium household income rate will cause an increase in U.S. Navy retention. The U.S. median household income rate for the period covered in this paper is listed in Figure 4.

Real Median Household Income: National



Historical Real Median Household Income for the United States

Date	US
2014	\$53,657
2013	\$53,105
2012	\$52,970
2011	\$53,162
2010	\$54,343
2009	\$55,415
2008	\$57,211
2007	\$57,936
2006	\$56,892
2005	\$56,058

Figure 4. Real Median Household Income for the United States. Source: Department of Numbers (2015).

III. METHOD

Our method is described in detail in the following sections.

A. DATA COLLECTED

The data we collected for this study was received from the community managers at the Bureau of Naval Personnel. It spans five fiscal years from 2011 to 2015. The data describes in detail the number of people eligible for a respective bonus, the number of people who took the bonuses offered, and the aggregate cost to the Navy to pay the bonuses. We have used this data to obtain the percentage of successes the Navy has realized per the cost of each specific bonus. We then compared these successes and costs, within the framework of the assumptions between the officer and enlisted communities to determine which method of retention is more effective.

1. Communities

We obtained data from three different communities: Naval Special Warfare, Naval Surface Warfare, and Aviation Warfare. Aviation Warfare for Officers is further broken down into Pilots and Naval Flight Officers. While this is not an all-inclusive list, we feel this is a representative sample of the Navy as a whole. These three categories are also the most relatable warfare specialties between officers and enlisted personnel.

2. Officers

Title 37, Section 5 of the U.S.C. describes the special and incentive pays that service members are eligible for under law. The bonus periods for officers varies as to when they may receive a bonus based on their community. The authority to establish periods for personnel and career specialties to be targeted for retention bonuses is at each Service Secretary in accordance with law. Most officers are targeted for retention around their 10th year of service. Naval Special Warfare has a bonus from six to 14 years of commissioned service and a second bonus from 15 to 23 years of service (see Appendix A). Aviation and Surface Officers are offered their bonus for the first time at the

LCDR/O-4 rank, or approximately 10 years of commissioned service. Aviation officers are also eligible for an Aviation Command Retention Bonus (ACRB) during their Commanding Officer tour. The current ACRB is paid in two installments of \$18,000 and incurs a commitment of two years or through their 22nd year of service, whichever is later (A. W. Moran, 2015).

3. Enlisted Personnel

Data for Enlisted Personnel is grouped into three zones: A, B, and C. Enlisted personnel under Zone A have completed at least 17 months of service but not more than six years, personnel in Zone B have completed at least six years of service but not more than 10 years, and personnel in Zone C have completed at least 10 years of service but not more than 14 years (Chief of Naval Operations, 2007). These different groups will create some assumptions that will be addressed in the following section. The current Selective Reenlistment Bonus and Policy update is included as Appendix B.

B. ASSUMPTIONS

Compensation for service members can cover a wide range of special and incentive pays as well as fringe benefits, which can be difficult to quantify and depend on whether service members are in a sea duty or shore duty billet at the time they are eligible for a retention bonus. There are also outside influences, other than direct pay, which affect retention rates and that must be considered. The following are the assumptions used in this study to account for these variations, along with the reasoning behind the assumptions.

1. Zone Assumptions for Enlisted Personnel

Enlisted service members are offered bonuses as a function of their time served in the Navy. Since these time-based zones can potentially cover a range of ranks, and in order to facilitate our data normalization described above, we have placed an assumption on each zone to standardize the rank for each zone and therefore its quantifiable base pay. We used E-4 to represent service members in Zone A, E-6 to represent service members

in Zone B, and E-7 to represent service members in Zone C. We feel this distribution accurately reflects the average rank for personnel in each of these zones.

2. Civilian Unemployment Rate

We have shown in our literature review that previous retention models that have been developed have discovered a multicollinearity problem when the civilian unemployment rate was used as a variable in the model. To reduce the effects of this in our data, we have assumed that there is a direct relationship between the civilian unemployment rate and the retention of U.S. Navy personnel. It follows logically that if the civilian market has need, is hiring more personnel, and is willing to pay more than the Navy is authorized to pay, those who have the opportunity to make more money will do so. Twenty-one percent of all employees leaving a company left for higher pay (WorldatWork, 2014). Thus, the direct relationship of a reduction in unemployment rate produces a reduction in Navy retention.

3. Median Household Income

Multicollinearity was also observed when median household income is used as a variable in retention models. To reduce the effects of household income with our data, we have assumed an inverse relationship between median household income and Navy retention. Households with lower income may value the job security provided by service in the military, thus making retention in the military a more attractive option.

4. Duration of Bonus

The Officer bonus can be paid out over a period of five or six years, depending on when the service member elects to take the bonus. To keep our data consistent, we have assumed that all contracts will be paid out over a period of five years. This will cause a possible slight variation in the data normalization (described in the following section), as the amount of bonus a service member would receive per year would be less if they were to elect the six-year option. Using five years shows the most dramatic effect and will not affect the sum of the actual cost the Navy must pay to use the bonus.

C. DATA NORMALIZATION

The data used for our comparison does not consider levels of magnitude between Officer and Enlisted pay scales or account for the effects of inflation over the five-year period studied. We normalized our data using the following methods to present results that can be compared side by side both in time and amount.

1. Relationship of Bonus Amount to Base Pay

Pay data for officers and enlisted personnel cannot be compared directly because of the nature of the pay difference (in amount) between officers and enlisted personnel. To correct for this, we have normalized our data as a ratio of the amount of the bonus received by the service member to the base pay of the service member. While this method does not take into account incentive pays or other special pay types, we feel comparing the amount that service members receive to their base pay levels the playing field between the two categories.

Base pay data was taken from military pay charts for each fiscal year contained in our data set. O-4 base pay was used for officers and E-4, E-6, and E-7 base pay was used for enlisted personnel in fiscal years 2011–2015.

2. Inflation Adjustment

Monetary data obtained was adjusted to a base year of 2015 using inflation indices obtained from the Naval Center for Cost Analysis' Joint Inflation Calculator (Naval Center for Cost Analysis, 2016). The indices used are shown in Appendix C and were calculated by multiplying the given monetary data obtained from our source material for a given fiscal year by the inflation index of the base year (FY15). Those figures were then used to calculate the rest of the cost data in FY15 dollars. All results are displayed in FY15 dollars.

D. CALCULATIONS

We normalized our given data to perform our analysis and create three metrics that we believe accurately reflect the cost versus benefit between the Enlisted Selective

Reenlistment Bonus and the Officer Retention Bonus. We calculated the Normalized Pay Ratio, the Retention Effectiveness Ratio, and the Average Cost to the Navy to service the contracts. Each of these metrics are explained in the following paragraphs.

1. Given Data

Community managers from the Navy Special Warfare, Surface Warfare, and Aviation Warfare provided the data we used to calculate our metrics for retention effectiveness. Data obtained for Officers consisted of the number of people eligible for a retention contract, the number of service members who accepted those contracts, and the total dollar amount it cost the Navy to service those contracts. For Enlisted service members, the community managers provided us with the number of service members who were eligible for a retention contract, the number of people who accepted those contracts, and the average initial contract payment made to those service members once their contracts began.

2. Calculated Data

We designed the Normalized Pay Ratio (NPR) to level the playing field in terms of pay between Officers and Enlisted service members. The ratio represents the incentive for a service member to be retained. To calculate the ratio, we first converted the annual retention bonus pay and service member annual base pay into FY15 dollars. We then divided the amount the service member would receive per year from their retention contract by the annual base pay for that service member. This ratio will then be compared to the effectiveness ratio to show how well the incentive has worked. A lower NPR means it took less money to incentivize a service member into signing up for a longer contract.

- **Officers:** We were given the total cost of all contracts (per community per fiscal year), which we adjusted for inflation. We divided the inflation-adjusted number by the number of personnel who signed retention contracts to arrive at the cost per service member contract. This was then divided by five to reflect our assumption that the contract will be paid out over a five-year period. The result was then divided by the O-4 annual base pay (in

FY15\$) to arrive at the Officer Normalization Ratio for a given category.

- **Enlisted:** We were already given the individual annual contract payments for Enlisted personnel, so these were simply adjusted to FY15\$ then divided by the respective annual base pay (in FY15\$) to arrive at the Enlisted Normalization Ratio.

The Retention Effectiveness Ratio (RER) is a simple calculation to show the difference between the number of people who were eligible for a retention contract and the number of people who actually signed a retention contract. This is used in conjunction with the Normalization Ratio to show the overall efficiency of the retention incentive. An effective incentive program would show a low NPR with a high RER.

Finally, the Average Cost to the Navy (ACN) shows the five-year average (in FY15\$) of what it cost to fund the retention contracts. This metric shows what it cost the Navy to offer the retention incentive. When compared to the other two metrics, ACN shows how much bang the Navy got for its buck—lower is better.

- **Officers:** Total cost data for Officers was given, so this amount simply needed to be converted into FY15\$ and then totaled as required.
- **Enlisted:** Total cost data for Enlisted contracts was calculated by taking the converted individual annual contract payment and multiplying it by the number of people who signed contracts in that fiscal year.

IV. RESULTS

The following section describes our results.

A. COST/BENEFIT ANALYSIS

The results of our analysis show that the ideal model for retention is a low NPR, high RER, and low ACN. The summary figures that follow present the results of this analysis. First is an aggregate summary of all of our Enlisted data compared to our Officer data across the three warfare specialties studied. This is followed by a breakout of individual warfare communities to show how each community affects the whole.

B. SUMMARY OF ENLISTED VERSUS OFFICER SERVICE MEMBERS

Figure 5 shows a summary of Enlisted personnel versus Officers in all of our categories combined. It combines all three zones of Enlisted personnel in all warfare categories and averages the results over a five-year period. Officer data is similarly summarized across all three warfare categories and averaged over the same five-year period. The results show that with an NPR of 40.99% the Navy was able to retain 59.47% of those eligible for Enlisted service contracts at a cost of about \$35.4 million (FY15\$). An NPR of 21.44% retained 51.63% of eligible Officers for a cost of about \$59.6 million (FY15\$).

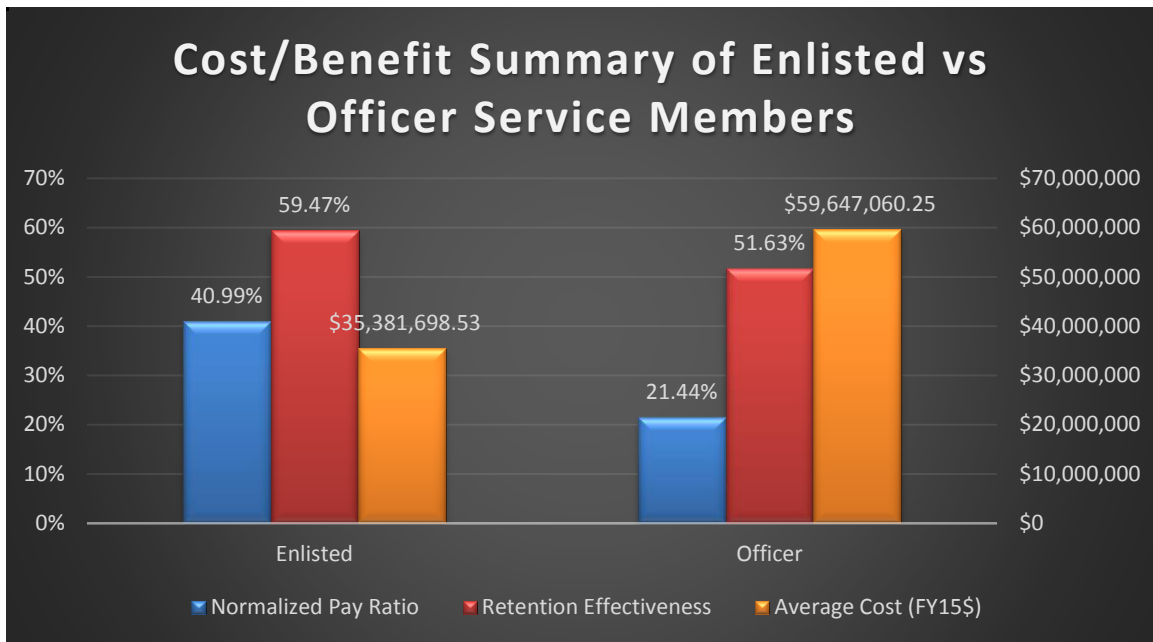


Figure 5. Cost/Benefit Summary of Enlisted versus Officer Service Members

C. SUMMARY OF NAVAL SPECIAL WARFARE COMMUNITY

Figure 6 shows a summary of Enlisted service members and Officers from the Navy Special Warfare community. Our results showed that a five-year NPR average of 76.15% retained a total of 62.86% eligible Enlisted Special Warfare personnel for an average cost of about \$18.7 million (FY15\$). This contrasts with a five-year Special Warfare Officer average NPR of 22.14%, which retained an impressive 72.41% of eligible personnel for a cost of only \$2.9 million (FY15\$).

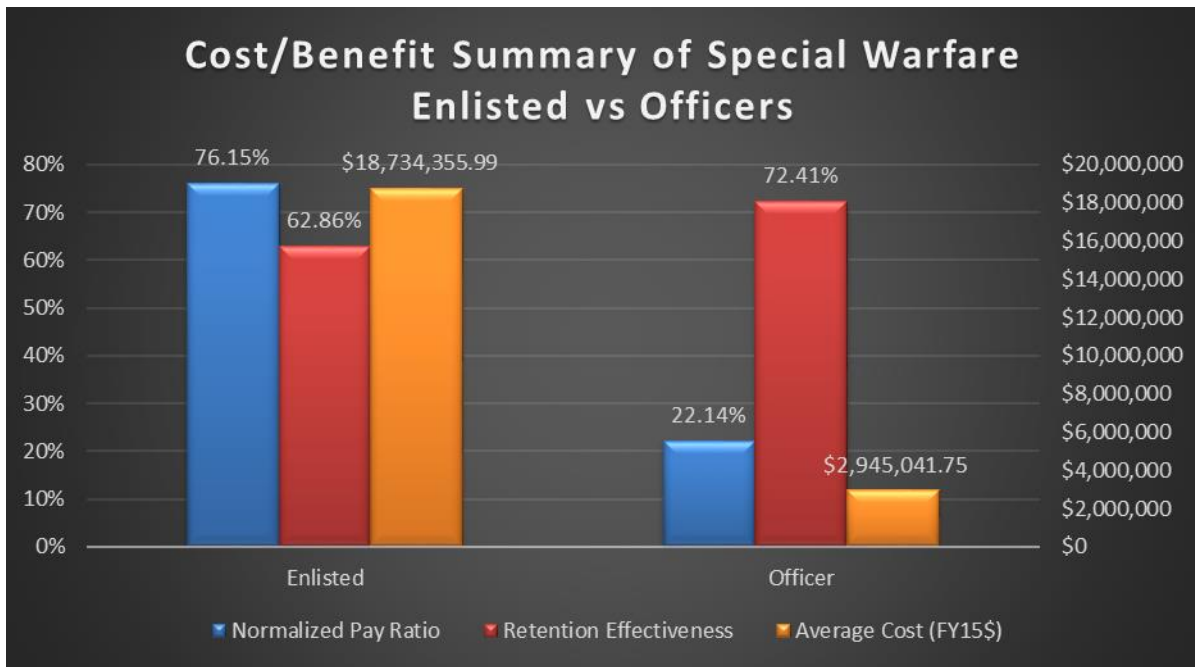


Figure 6. Cost/Benefit Summary of Special Warfare Enlisted versus Officers

D. SUMMARY OF SURFACE WARFARE COMMUNITY

Figure 7 shows results from the Surface Warfare community. Enlisted Surface Warfare members were retained at an average rate of 75.95%, with an NPR of 27.79% at an average five-year cost of roughly \$12.0 million (FY15\$). Surface Warfare Officers were retained at an average rate of only 37.10% over five years, with an NPR of 19.19% and an average cost of \$21.0 million (FY15\$).

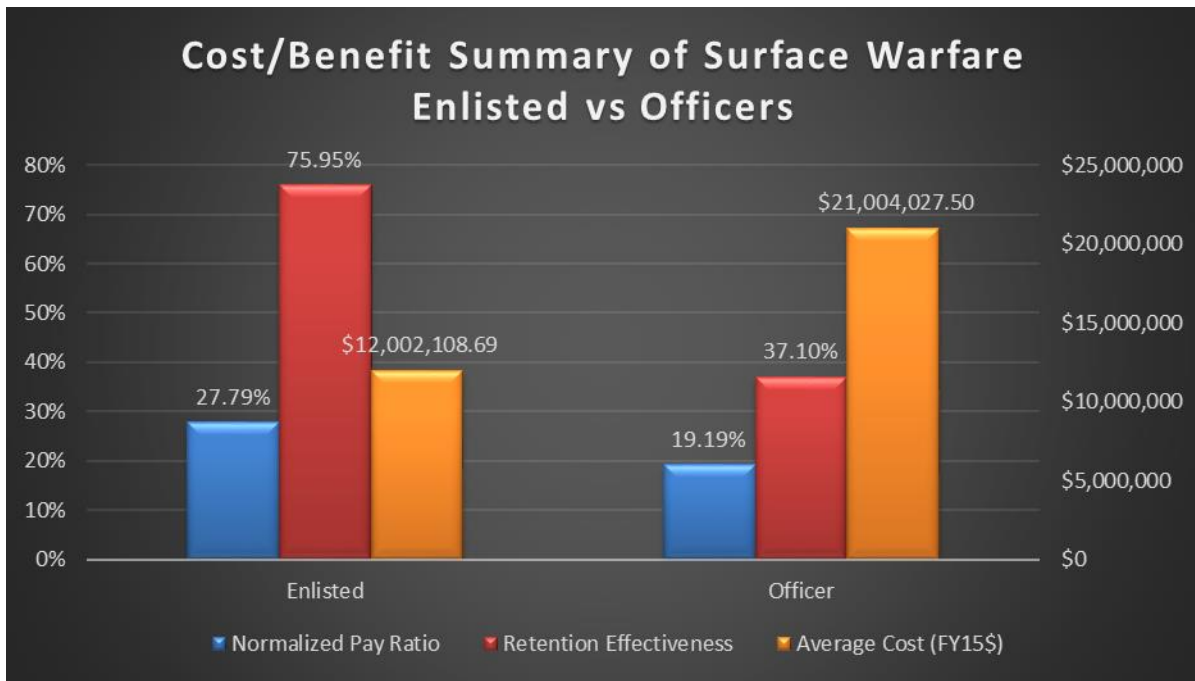


Figure 7. Cost/Benefit Summary of Surface Warfare Enlisted versus Officers

E. SUMMARY OF AVIATION WARFARE COMMUNITY

Figure 8 shows results from the Aviation Warfare community. Enlisted aviation service members were retained at an average rate of 37.17% at an NPR of only 15.24% for an average cost of about \$4.6 million (FY15\$). These results exclude an anomalous data point from FY13 that showed an RER of 1,133.3%. The raw data we received from the community manager showed 34 sailors were retained when only three sailors were eligible. Because we feel this data is not representative of the population we are attempting to depict, we have excluded the data point. If the data point were included, the averaged RER would be 111.45% at an NPR of 17.26% for a total cost of \$4.8 million (FY15\$). This abnormal data point also skews the summarized results in Figure 5. With the data point included, we would see an averaged RER of 83.42% at an NPR of 40.40% and an average cost to the Navy of \$35.5 million (FY15\$). Aviation Officers were retained at an average rate of 45.38% over five years at an NPR of 22.98% and a five-year average cost of \$35.7 million (FY15\$).

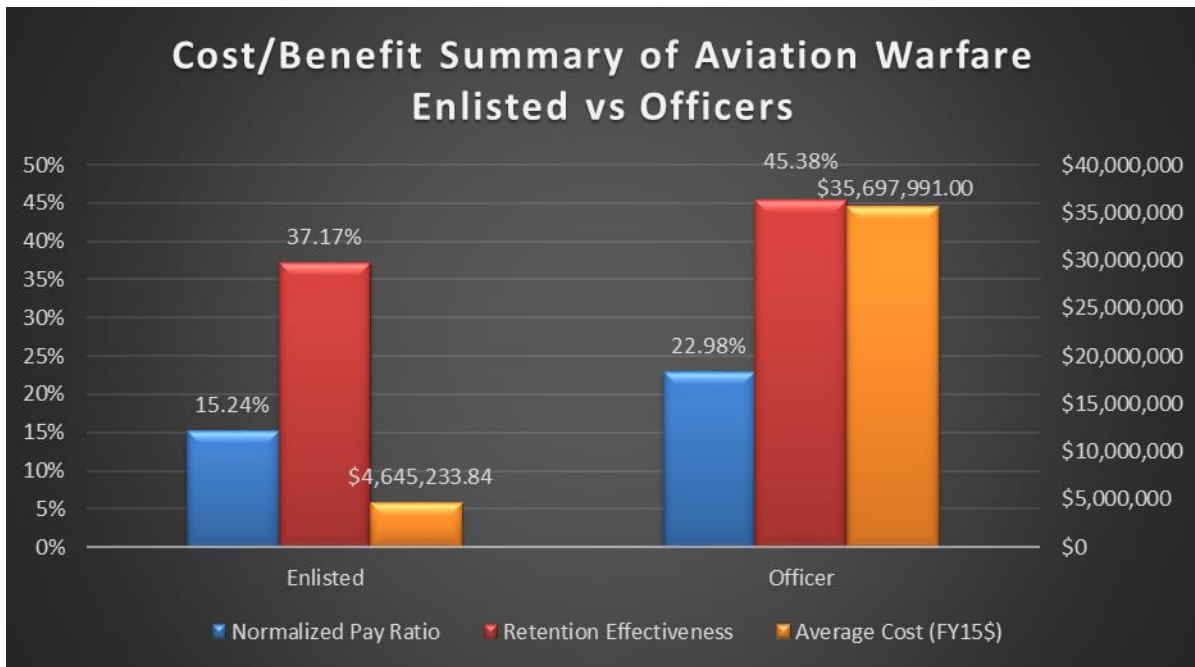


Figure 8. Cost/Benefit Summary of Aviation Warfare Enlisted versus Officers

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V. CONCLUSION

Our data analysis shows that the Enlisted bonus structure is more efficient and cost effective than the Officer Bonus structure when taken as a whole. The results show that with an NPR of 40.99%, the Navy was able to retain 59.47% of those eligible for Enlisted service contracts at a cost of \$35.4 million (FY15\$). An NPR of 21.44% retained 51.63% of eligible Officers for a cost of \$59.6 million (FY15\$). We conclude that the structure and adapting multiplier of the enlisted plan are the reasons for this effectiveness. All enlisted personnel know when their bonus periods will be offered. The amount of the bonus is the unknown and is based off a multiplier that takes into account internal and external factors. The multiplier can thus adjust the amount of bonus paid based on the “needs of the Navy” and external economic conditions that drive retention up or down. The Officer bonus structure does not have a multiplier and varies from community to community on timing and amount.

The exceptions noted in the data are the Naval Special Warfare community and an anomaly in the Aviation warfare that we excluded. Our results for Naval Special Warfare showed that a five-year NPR average of 76.15% retained a total of 62.86% eligible Enlisted Special Warfare personnel for an average cost of \$18.7 million (FY15\$). The five-year Special Warfare Officer average NPR of 22.14% retained an impressive 72.41% of eligible personnel for a cost of only \$2.9 million (FY15\$). We attributed this contrast with the other two communities to the Naval Special Warfare training pipeline and the “stickier bonds” (Towers Watson, 2012) of emotional attachment created by Naval Special Warfare.

By normalizing the data to a percentage of base pay, we were able to compare apples to apples on the numbers. However, in doing so, we effectively negated the human behavior theories and other external factors. We believe the direct comparison of normalized figures is essential to our conclusion but only a portion of our conclusion.

Applying Maslow’s hierarchy of needs, the junior to mid-level enlisted personnel are more likely to be in the base needs category, so additional monetary incentive will

have a dramatic effect. Depending on the Officer's rank and pay, the higher the rank the more likely they are in a higher tier of Maslow's hierarchy of needs, and the weight given to a cash bonus should theoretically diminish. Since Officer retention bonus plans take effect at approximately 10 years of commissioned service, the safety, social, and ego tiers are where we believe this additional money will be categorized. A survey with specific questions designed to answer the exact tier the money falls in would be highly beneficial future research.

Ultimately, the reasons for personnel leaving must be addressed. Normalized data does not take into account the individual's value to the civilian market. If you compare a highly skilled Information Technician to a less technical enlisted rating, their value to the civilian market is different. The Navy accounts for this by offering bonus plans to those categories with manning deficiencies or projected manning deficiencies. As the civilian market demand increases, the bonus structure must also adapt and increase to retain the personnel. The enlisted plan does this very effectively with the enlisted multiplier. The Officer plan does not have a multiplier and often reaches the max bonus rate allowed by law, with only future reductions being possible. Both Officer and Enlisted have a max bonus set forth by law, and it is essentially the same with the slight difference of time incurred:

Aviation and Naval Special Warfare officer retention bonuses are capped at \$25,000 per year, for a specified period. Enlisted bonuses (a) may not exceed \$50,000 for a minimum two-year period of obligated service agreed to under subsection (d). (10 U.S.C. § 301(b), 2012)

A normalized maximum based on base pay should be evaluated. Then control the amount given based on a multiplier that adjusts to current and projected manning, economic conditions, and external factors.

The model that we developed in our analysis is used to answer our primary research question. A low NPR and ACR in conjunction with a high RER is the preferred model. The Navy wants to retain the most people at the least price to the nation's taxpayers. The Enlisted Retention Bonus structure is more cost effective than the Officer Retention Bonus structure.

The differences in timing of bonuses between the two plans can best be summarized by set milestones for the Enlisted bonus plan: Zone A, B, and C. These zones could be targeted years based on current/forecasted manpower gaps for the Officer bonus plan. External economic factors and internal manning size are more accurately accounted for on the Enlisted bonus plan due to an updating multiplier that moves the amount of the bonus up or down based on the current economic and manning conditions. The Officer bonus plan does not have a multiplier. A limitation to our study was a lack of survey results, which could have defined personal reasons for accepting or declining a bonus. Survey results could provide a nexus between the human behavior theories and why people accept or decline a bonus. We recommend this as another future area of study and suggest possibly having service members indicate why they did or did not choose to accept a retention bonus.

Going forward, we recommend the DOD look at all Naval Warfare communities to assess which have the “stickier bonds” mentioned in Towers Watson and attempt to emulate their successes across other communities. The current Command Climate Surveys are an excellent place to start this analysis. Lastly, we recommend attaching a survey to milestone dates and historic retention problem years to attempt to connect the human behavior theories and why Navy personnel accept or decline a bonus. Our research along with many others shows that money is needed, but not the only factor. The ability to link monetary incentives to personal needs will create a far more effective and cost-efficient retention rate. We recommend that our study be conducted again with data gathered after the new military retirement plan takes effect on January 1, 2018.

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APPENDIX A. NAVAL SPECIAL WARFARE INCENTIVES

This appendix is verbatim from the Navy's public website (U.S. Navy, 2014).

A. SEAL/SWCC OFFICER AND ENLISTED INCENTIVE PAYS:

1. *Dive Pay: (\$150–340 per month)*

SEAL officers in training are entitled to \$150.00 dive pay after completing the dive phase of SEAL training. SEAL officers who complete SEAL training and qualify for the SEAL warfare designator are entitled to \$240.00.

Enlisted members are offered dive pay based on qualification level from \$150 for a student in BUDs to \$340 per month for a fully qualified SEAL Delivery Vehicle operator.

2. *Jump Pay: (\$150–225 per month)*

SEAL officers and enlisted are entitled to parachute pay. SEALs and SWCC qualified in static line jump operations receive \$150.00. SEALs and SWCC qualified in High Altitude Low opening (freefall) operations receive \$225.00.

3. *Demolition Pay: (\$150 per month)*

SEAL officers and enlisted are entitled to demolition pay. SEALs who complete monthly demolition qualifications receive \$150.00.

4. *Special Duty Assignment Pay (Level 4 \$300 per month/Level 6 \$450 per month)*

SEAL enlisted are entitled to Level 6 SDAP when holding a 5326 NEC. SWCC enlisted are entitled to Level 4 SDAP when holding a 5352 NEC. NSWDCG Combat Support and Combat Service Support personnel are paid SDAP as outlined in the current SDAP NAVADMIN.

B. SEAL/SWCC OFFICER AND ENLISTED INCENTIVE BONUS PROGRAMS:

1. Enlistment Bonus (EB)

SEAL and SWCC EB is currently at \$12,000 and \$8,000 respectively. EB is designed to help attract qualified recruits to the program and payment is phased out in the training pipeline to incentivize candidates to complete various phases of selection and training. The majority of EB is paid out when the candidate completes training.

2. Selective Reenlistment Bonus (SRB)

A qualified SEAL or SWCC who reenlists in Zones A, B or C can qualify for the SRB amount per the current SRB NAVADMIN 071/14. Over a career, SEALs and SWCC's can reenlist in each zone for the maximum amount allowable. SRB is our most effective retention tool and it affords Navy the ability to compete in a domestic labor market that is increasingly demanding of skilled, technically proficient, and combat experienced NSW operators.

Amounts:

- | | |
|------------------------------|------------------------------|
| ▪ SO 5326 ZN A: 2.0 / \$30k | ▪ SO 5392 ZN B: 9.0 / \$100k |
| ▪ SO 5326 ZN B: 8.5 / \$100k | ▪ SB 5352 ZN A: 3.5 / \$45k |
| ▪ SO 5326 ZN C: 7.0 / \$100k | ▪ SB 5352 ZN B: 5.0 / \$100k |
| ▪ SO 5323 ZN A: 6.0 / \$100k | ▪ SB 5352 ZN C: 5.0 / \$100k |
| ▪ SO 5323 ZN B: 9.0 / \$100k | ▪ SB 5392 ZN A: 6.0 / \$100k |
| ▪ SO 5323 ZN C: 9.0 / \$100k | ▪ SB 5392 ZN B: 9.0 / \$100k |
| ▪ SO 5392 ZN A: 6.0 / \$100k | ▪ SB 5392 ZN C: 9.0 / \$100k |

3. SEAL/SWCC Enlisted Critical Skills Retention Bonus

Available to enlisted SEAL and SWCC operators and Warrant Officers with 19–30 years of service (see NAVADMIN 162/13). Lump sum bonus paid at time of reenlistment.

Amounts:

- Phase ONE max: \$110K for serving 19 through 24 YOS (5 years)

- Phase TWO max: \$50K for serving 25 through 26 YOS (2 years)
- Phase THREE max: \$40K for serving 27 through 29 YOS (4 years)

4. Special Warfare Officer Continuation Pay

Although referred to as a pay this incentive is really a bonus offered to the SEAL officer community. The community has offered Officer Continuation Pay (OCP) since 1999 to retain officers with 6–14 YOS. The bonus is offered in three increments; \$15K per year for five years, \$12.5K per year for four years, \$10K per year for three years and \$6K for a one-year contract. The OCP has successfully increased retention and stabilized NSW officer career management.

5. Critical Skills Accession Bonus

This is a new program, implemented in 2005 and is paid to enlisted SEALs who transition to the SEAL Chief Warrant Officer community. SEALs and SWCC operators who accept a commission and agree to serve 6 years are offered a \$45,000 lump sum bonus (see NAVADMIN 206/13). FY15 CWO selectees and beyond who except an appointment to CWO and are currently on a CSRB contract will be ineligible to receive or apply for a CSAB.

6. SEAL Officer Critical Skills Retention Bonus

Available to SEAL Officers with 15–23 years of service (see NAVADMIN 234/13). Equal annual payments paid at signing and anniversary date of contract entrance. Amounts:

Phase I CSRB. Member must be a NSW officer with 1130 or 1137 designator and screened positive at a NSW CO/XO Administrative Screening Board for an Executive Officer tour to apply for a phase I bonus. Phase one contracts encompass 15 to 18 years of ADCS for 1130 designators and 15 to 17 years of ADCS for 1137 designators. Members will have the opportunity to receive up to \$125k (1130) and \$100k (1137) in retention bonuses for phase I contracts.

- a. NSW Officers (Designator 1130) with 15–18 ADCS:

5-year agreement: \$25,000 per year

3-year agreement: \$15,000 per year

b. NSW Officers (Designator 1137) with 15–17 ADCS:

5-year agreement: \$20,000 per year

3-year agreement: \$10,000 per year

Phase II CSRB. Member must be a NSW officer with 1130 designator and screened positive at a NSW CO/XO administrative screening board for a Commanding Officer tour to apply for a phase II bonus. Phase two contracts encompass 20 to 23 years of ADCS. Members will have the opportunity to receive up to \$75k (1130) in retention bonuses for phase II contracts.

a. NSW Officers (Designator 1130) with 20–23 ADCS:

5-year agreement: \$15,000 per year

3-year agreement: \$10,000 per year

APPENDIX B. CURRENT ENLISTED NAVADMIN

This appendix is verbatim from V. W. Moran (2016).

C. NAVADMIN036/16

UNCLASSIFIED
ROUTINE
R 181858Z FEB 16
FM CNO WASHINGTON DC
TO NAVADMIN
INFO CNO WASHINGTON DC
BT
UNCLAS
NAVADMIN 036/16
MSGID/GENADMIN/CNO WASHINGTON DC/N1/FEB//
SUBJ/SELECTIVE REENLISTMENT BONUS AND POLICY UPDATE//
REF/A/MSG/CNO WASHINGTON DC/301636ZAPR15//
REF/B/MSG/CNO WASHINGTON DC/172244ZMAY11//
REF/C/MSG/CNO WASHINGTON DC/091453ZOCT15//
REF/D/MSG/CNO WASHINGTON DC/221403ZMAR13//
REF/E/DOC/OPNAV/30JAN07//

NARR/REF A IS NAVADMIN 106/15, SELECTIVE REENLISTMENT BONUS AND POLICY UPDATE. REF B IS NAVADMIN 166/11, FY-11 SELECTIVE REENLISTMENT BONUS AWARD LEVELS AND POLICY UPDATE II. REF C IS NAVADMIN 237/15, ENLISTED SUPERVISOR RETENTION PAY UPDATE TO BONUS MULTIPLES. REF D IS NAVADMIN 070/13, NUCLEAR TRAINED SAILOR APPLICATIONS TO OFFICER COMMISSIONING PROGRAMS. REF E IS OPNAVINST 1160.8A, SELECTIVE REENLISTMENT BONUS (SRB) PROGRAM.//

1. RMKS/

1. This NAVADMIN announces revised selective reenlistment bonus (SRB) award levels and reenlistment policy for active component (AC) and full time support (FTS). This NAVADMIN supersedes reference (a).

2. Increased award levels are effective immediately and decreased levels are effective 30 days after the release of this NAVADMIN.

3. Continuing with the policy initiated by reference (b), reenlistment requests for the following SRB award levels will be approved based on quota availability. Commander, Navy Personnel Command, Enlisted Career Administration Division (PERS-81) maintains the current list of SRB eligible ratings/skills based on available quotas at the following website: <http://www.public.navy.mil/bupers-npc/career/enlistedcareeradmin/pages/srb.aspx>. Addendums to the current award message posted on this site provide notification of skill closures and supersede the current NAVADMIN. For those commands with limited Internet access, command career counselors (CCC) should contact Enlisted Active Programs (PERS-811) directly for the latest updates. SRB reenlistment requests must be submitted to PERS-81 via Officer Personnel Information System (OPINS) or Navy Standard Integrated Personnel System (NSIPS) 35–120 days in advance of the Sailors requested reenlistment date. Eligible Sailors desiring SRB reenlistment are encouraged to work with their chain-of-command as early as possible within their reenlistment window to maximize potential for SRB.

4. FTS SRB award levels are as follows (Note: a + indicates an increase from previous award level):

FTS

Tier Three:

45,000 DOLLAR AWARD CEILING

Rating	NEC	Zone A	Zone B	Zone C	Notes
NC(CRF) FTS	2186	0	0.5	0.5	

5. AC SRB award levels are as follows (Note: An * indicates level located in other sections of paragraph 5; a - indicates a reduction from previous award level; a + indicates an increase from previous award level):

Tier One:

30,000 DOLLAR AWARD CEILING

Rating	NEC	Zone A	Zone B	Zone C	Notes
ND	5342	-1.5	-1.0	-1.0	
IT	0000	1.0	*	0.0	B,G
STG	0000	0.0	2.0	0.0	G

45,000 DOLLAR AWARD CEILING

Rating	NEC	Zone A	Zone B	Zone C	Notes
SO	5326	-2.0	*	*	
SB	5352	3.0	*	*	
AM	7225	0.0	2.0	0.0	
HM	8402	0.0	*	-0.5	
OS	0319	0.0	-2.0	1.0	
FT	13XX	0.0	-0.5	0.0	D
ETR COMM	14XXA	*	-2.0	0.0	D,E,F
MT	33XX	*	-0.5	0.0	D
CTI-Latin/S America	9SPA	0.0	-0.5	0.0	A,B
CTI-Eastern Europe	9RUS	0.0	-0.5	0.0	A,B
CTN	0000	2.0	*	*	A,B,G
CTR	0000	1.5	0.0	0.0	A,B,G
EN	0000	0.0	1.0	0.0	G
GSE	0000	0.0	1.5	1.5	G
STS	0000	*	2.0	0.0	G
EOD	5333	-2.0	-3.0	0.0	
OS	0318	0.0	0.0	0.0	
OS	0324	0.0	0.0	0.0	

60,000 DOLLAR AWARD CEILING

Rating	NEC	Zone A	Zone B	Zone C	Notes
IS	3913	0.0	-2.0	1.5	A, B
HM	8402	0.0	-3.0	*	
HM	8403	0.0	5.0	2.0	
HM	8425	0.0	-1.0	-0.5	
HM	8427	4	2.0	0.0	
HM	8494	0.0	-3.0	-1.0	
CTR	9149	0.0	2.0	2.5	A, B
ETV	14XXB	*	-1.0	0.0	D, E, F

ITS	27XX	*	-1.0	0.0	B, D
MM(A)	42XXA	*	1.5	0.0	D, E
MM(W)	42XXB	*	2.0	0.0	D, E
CSSS	0000	2.0	0.0	0.0	E, G
FCA	0000	3.0	*	0.0	G

75,000 DOLLAR AWARD CEILING

Rating	NEC	Zone A	Zone B	Zone C	Notes
EOD	5335	-5.0	5.0	5.0	
CTN	9308	6.0	6.0	6.0	A, B
STG	0416	0.0	6.0	6.0	
ITS	2781	0.0	0.0	-1.0	B
ITS	27XX	-1.0	*	0.0	B, D
EMNUC(SS)	3354/64	-8.0	7.5	0.0	C, E
ETNUC(SW)	3383/93	-8.5	*	0.0	C, E
EMNUC(SW)	3384/94	-6.5	7.5	0.0	C, E
MMNUC(SW)	3385/95	-7.5	*	0.0	C, E
CTI-MidEast/N. Africa	9PES	-0.5	-0.5	0.0	A, B
CTI-MidEast/N. Africa	9ARB	-0.0	0.0	0.0	A, B
CTN	0000	*	4.0	3.0	B, G
ETSW	0000	0.0	1.5	1.0	E, G
FC	0000	0.0	1.5	1.0	G
SO	5326	*	-6.0	*	
SO	5323	-6.0	*	*	
SB	5352	*	5.0	*	
SB	5392B	-6.0	*	0.0	D
SO	5392A	-5.0	*	0.0	D

90,000 DOLLAR AWARD CEILING

Rating	NEC	Zone A	Zone B	Zone C	Notes
ND	5341	0.0	0.0	5.0	
SO	5323	*	-6.5	*	

100,000 DOLLAR AWARD CEILING

Rating	NEC	Zone A	Zone B	Zone C	Notes
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SO	5323	*	*	-5.5	
SO	5326	*	*	-5.0	
EOD	5337	0.0	-5.0	-4.0	
SB	5352	*	*	5.0	
STS	0416S	0.0	8.0	8.0	D
ETNUC(SS)	3353/63	12.0	9.0	0.0	C,E
MMNUC(SS)	3355/65	11.0	9.0	0.0	C,E
ELTNUC(SS)	3356/66	11.0	9.0	0.0	C,E
ETNUC(SW)	3383/93	*	9.0	0.0	C,E
MMNUC(SW)	3385/95	*	9.0	0.0	C,E
ELTNUC(SW)	3386/96	9.5	9.0	0.0	C,E
SO	5392A	*	8.5	0.0	D
SB	5392B	*	8.5	0.0	D

Tier Two:

30,000 DOLLAR AWARD CEILING

Rating	NEC	Zone A	Zone B	Zone C	Notes
HM	8401	1.5	*	0.0	H
CSSW	0000	1.5	0.0	0.0	G
YNSS	0000	1.0	0.0	0.0	E,G
LS(SS)	0000	-0.0	0.0	0.0	

45,000 DOLLAR AWARD CEILING

Rating	NEC	Zone A	Zone B	Zone C	Notes
CTT	1702	0.0	-0.5	0.0	A,B
MR	4402	0.0	2.5	0.0	
CB	5931	0.0	3.5	-1.5	
CB	5932	-2.0	-2.0	0.0	
HM	8401	*	2.0	0.0	
HM	8493	-1.0	0.0	0.0	
HM	8541	0.0	2.0	0.0	
CTT	9135	0.0	-1.0	-0.5	A,B
CTR	9138	0.0	0.0	0.0	
CTM	9229	-0.0	-0.5	1.0	A,B
CTT	173X	0.0	-0.5	0.0	A,B,D

MT	33XX	-0.5	*	0.0	D
MM(A)	42XXA	3.0	*	0.0	D,E
MM(W)	42XXB	3.5	*	0.0	D,E
AC	0000	3.0	3.0	0.0	G
GSM	0000	0.0	1.5	.0	G
IC	0000	0.0	1.5	*	G
IT	0000	*	2.0	0.0	B,G
AG	0000	-0.0	0.0	0.0	
DC	0000	0.0	-0.0	0.0	
HT	0000	-0.0	-0.0	0.0	

60,000 DOLLAR AWARD CEILING

Rating	NEC	Zone A	Zone B	Zone C	Notes
CB	5933	0.0	0.0	3.0	
CTR	9169	2.0	2.0	0.0	A,B
ETR	14XXA	-1.0	*	0.0	D,E,F
ETV	14XXB	-0.5	*	0.0	D,E,F
FT	0000	-0.0	0.0	0.0	

75,000 DOLLAR AWARD CEILING

Rating	NEC	Zone A	Zone B	Zone C	Notes
FCA	0000	*	4.0	0.0	G
STS	0000	2.0	*	0.0	G

Tier Three:

30,000 DOLLAR AWARD CEILING

Rating	NEC	Zone A	Zone B	Zone C	Notes
MA	2005	1.0	0.0	0.0	
HT	4955	1.5	1.0	1.0	
AG	7412	*	2.0	0.0	I
AWS	7886	1.0	1.0	0.0	
AWV	8229	1.0	1.0	0.0	
AWF	8235	1.0	1.0	0.0	
HM	8506	0.0	-0.5	0.0	

HM	8708	0.0	2.0	0.0	
HM	8753	0.0	1.0	0.0	
HM	8765	0.0	0.0	0.0	
ABE	0000	0.0	0.0	0.0	
ABF	0000	0.0	0.0	0.0	
ABH	0000	0.0	0.0	0.0	
AM	0000	1.0	1.0	0.0	G
AME	0000	1.0	0.0	0.0	G
AO	0000	0.0	1.0	0.0	G
CTT	0000	1.0	0.0	0.0	B,G
IC	0000	0.0	*	1.5	G

45,000 DOLLAR AWARD CEILING

Rating	NEC	Zone A	Zone B	Zone C	Notes
NCCR	2186	0.0	-0.5	-0.5	
CB	5633	-1.0	-1.0	0.0	
AG	7412	2.0	*	0.0	
AWO	7841	1.0	0.0	0.0	
AWO	0000	0.0	2.0	0.0	G
LCAC (AWO,ET,QM,OS)	0304	0.0	0.0	0.0	
EM	0000	0.0	0.0	0.0	
MMSW	0000	0.0	0.0	0.0	

6. Notes

a. The SRB for this rating or Navy enlisted classification (NEC) is tied to an incumbent billet or to orders negotiated for the next billet. Commands must verify if the member is currently in, or has orders to a billet requiring this NEC and annotate this verification in the comments section of the precertification request. Personnel not in their negotiating window at the time of reenlistment should sign Administrative Remarks (NAVPERS 1070/613), agreeing to take orders to an NEC billet. The NAVPERS 1070/613 should be forwarded to member's detailer.

b. An SRB approval for all CT, IS, IT, and ITS ratings will be contingent upon member having a current single scope background investigation (SSBI), an active SSBI

or recent submission of an SSBI package. Commands must verify the member has a current SSBI, active SSBI, or has submitted an SSBI package and make note of this in the comments section of the precertification request.

c. Reenlistment bonuses for nuclear trained personnel:

(1) Reenlistment compensation for zone 1–3 nuclear trained personnel holding a nuclear supervisor NEC shall be provided under the enlisted supervisor retention pay (ESRP) program in accordance with policies and procedures detailed in reference (c) along with current ESRP multiples.

(2) SRB entitlement for eligible nuclear-trained service members who reenlist after applying for an officer program will be held pending selection results. For nuclear trained personnel only, the date on which conditional release is approved by Nuclear Propulsion Programs (N133) per reference (d)

is considered the date of the application to an officer program.

d. Letters appearing with an NEC are only for administrative use.

e. Subsurface or surface designation does not mean an individual must be subsurface or enlisted surface warfare specialist qualified, but it indicates the component of the rating in which they can reasonably be expected to serve. Training, qualifications, and previous or projected duty assignments at sea will indicate the appropriate rating component. When using the force management system and the OPINS to input an SRB precertification request, use the rating (with appropriate suffix designation/NEC) as specified in this NAVADMIN. For example, a surface electronics technician with no NEC would submit 'ETSW' on precertification for rating.

f. Subsurface electronics technician 14XXA identifies all subsurface electronics technician communications Sailors who hold NECs beginning with 14. Subsurface electronics technician navigation 14XXB identifies subsurface electronics technician navigation Sailors and includes all subsurface electronics technician navigation NECs beginning with 14.

g. NEC 0000 (commonly referred to as quad zero) is listed here to establish that Sailors in these ratings/career fields can hold any or no NEC and still be qualified for the SRB provided they meet all other applicable non-NEC related criteria.

h. E-3 to E-6 personnel only.

i. E-4 to E-6 personnel only.

7. Littoral Combat Ship (LCS) Guidance. Sailors assigned to LCS platforms or with orders to an LCS platform who possess multiple NECs specifically required for LCS assignment are authorized to reenlist for the most lucrative SRB-eligible NEC, regardless of assigned rating.

8. Reenlistment Opportunity:

a. Sailors serving in tier one skills are eligible to reenlist any time within the same fiscal year of their expiration of active obligated service (EAOS).

b. Sailors serving in a tier two or three skill must reenlist within 180 days of their EAOS and are not constrained by the fiscal year. This policy expires on 1 October 2016, after which Sailors in this category must reenlist within 90 days and in the same fiscal year as their EAOS.

c. Sailors serving in a tier two or three skill and eligible for combat zone tax exclusion (CZTE) are authorized to reenlist anytime within the same fiscal year as their EAOS. These Sailors, along with CCC must annotate in the remarks section of the precertification request whether they are currently CZTE eligible or serving in a qualified hazardous duty area. A condition of approval of their precertification request is that the Sailors reenlistment occurs in a month during which CZTE qualification applies.

d. Sailors serving in tier two or tier three SRB skills who received an early promote in block 45 of their most recent regular periodic evaluation will be allowed to reenlist early any time within the fiscal year of their EAOS. No transfer, concurrent, or special evaluations will apply. Sailors advanced within the 12 months prior to their EAOS will be allowed to substitute the last regular periodic evaluation in their previous

paygrade. Personnel must email a signed copy of the evaluation to PERS-81 once their precertification has been submitted. This requirement is only for those that fall under the provisions of this paragraph.

9. SRB Precertification Requirements:

a. Career Waypoints—Reenlistment (C-WAY-REEN): Commands are authorized to submit SRB reenlistment requests prior to a member receiving a C-WAY-REEN quota; however, the C-WAY-REEN quota request must have been submitted and the SRB request will not be processed until the member has received C-WAY-REEN confirmation. SRB requests without C-WAY-REEN approval will still be rejected in the OPINS to keep the command informed of potential SRB approval issues. Once a member has an approved C-WAY-REEN quota, the command should contact PERS-81 to clear any rejections.

b. Commands are required to submit SRB reenlistment requests to PERS-81 via OPINS or NSIPS 35–120 days in advance of the Sailors requested reenlistment date. Requests submitted less than 35 days prior to the requested reenlistment date will be rejected; however, commands may contact PERS-81 for waiver eligibility and procedures. Sailors must have approved precertification before reenlisting. The servicing personnel office is responsible for verifying the reenlistment, posting the contract, releasing the first payment, and verifying the master military pay account.

c. Sailors with approved precertification who do not reenlist on the date or for the term specified in the precertification message must have their command contact PERS-81 to initiate a reenlistment cancellation to avoid placing Sailors in an overpaid status.

d. To validate an inoperative extension of enlistment and expedite processing of an SRB request, include the following information in the remarks paragraph of the request: term, narrative reason, authority, and execution date of all inoperative extensions. Failure to verify extension will cause processing delays and may result in rejection of the request or an approval at a lower amount.

e. Sailors must obtain an approval for extension from PERS-81 in order to minimize the potential for loss of SRB eligibility.

f. For FTS SRB reenlistment requests use one of the below listed type codes:

(1) CODE 1RR, Immediate Reenlistment for FTS SRB.

(2) CODE 1RB, Broken Service Reenlistment for FTS SRB.

(3) CODE 1RC, Obligated Service to Train and Reenlist for FTS SRB.

10. NEC-Specific SRB and Lateral Conversions. Acceptance of an NEC-specific SRB contract indicates an agreement between the Sailor and the Navy to use skills attributed to the NEC during the Sailors enlistment to meet fleet readiness requirements. In subsequent tours, a Sailor must be willing to be detailed during the normal projected rotation date window to an available billet within the SRB contracted NEC, consistent with sea-shore flow requirements. Lateral conversions must follow reference (e), paragraph 12d. Lateral conversion requests will normally not be processed more than nine months before the EAOS. Conversions to a rate with a lower award level normally will not be approved. Personnel in a closed-loop NEC can reenlist by the NEC only.

11. Obligated Service to Train (OTT). See reference (e), paragraph 12e, for OTT guidance. Requests are to be submitted to PERS-81 extension desk via email. A copy of the authorization message should be retained by the Sailor until the SRB reenlistment on graduation day from the course of instruction. Use code 1CC (1RC for FTS) for OTT SRB request in OPINS or NSIPS.

12. Inoperative Extensions Policy. In keeping with Department of Defense (DOD) policy, personnel who accepted an enlistment bonus for extended enlistment (EBEE), as reflected on their Enlistment Guarantee (NAVCRUIT 1133/52 (EG, NAT or PACT)), are not authorized to use this inoperative extension time in the SRB calculation. Sailors who have inoperative extension time through a five-year obligation or six-year obligation program, or as authorized in NAVADMIN 007/09, may continue to have up to 24 months

of inoperative extension time count towards the SRB calculation provided the reenlistment results in a new EAOS that is at least 24 months day-for-day past the current extended EAOS. This calculation is performed automatically by PERS-81. Local commands are not authorized to cancel or change extensions for the purpose of immediate SRB reenlistments. Commands must verify and annotate on the precertification request whether any inoperative extension time noted is part of an EBEE contract.

13. Repayment. Repayment policy is governed by section 373 of Title 37, U.S. Code, DOD Financial Management Regulation Volume 7A (FMR) Chapter 2, and reference (e), which collectively determine when repayment of the unearned portion of a bonus is required, not required but left to secretarial discretion, or prohibited. Section 373 of Title 37, U.S. Code requires repayment with certain exceptions. As a general rule, repayment of any unearned portion of a bonus will be sought.

14. To ensure all requirements and timelines are met, visit the following SRB page of the NPC website: <http://www.public.navy.mil/bupers-npc/career/payandbenefits/N130/pages/N130D.aspx>.

15. Point of contact for a Sailor who has reenlisted and has not received their SRB payment, or has questions concerning the taxation of their SRB and annual installments, is the Sailors servicing pay office or personnel support detachment. SRB tax information is also discussed in DOD FMR, Chapter 44, Table 44–1, Rule 7. The point of contact for a Sailor with questions regarding the SRB program or any information on their PERS on-line account is their CCC. For technical questions or clarification, CCCs, not individual Sailors, are encouraged to contact MMNCM(SS) James Lucky (PERS-81) at (901) 874–3215/DSN 882, fax at (901) 874–2623/DSN 882, or via email at james.lucky1@navy.mil or Mr. Francisco Palomo at (901) 874–3915/DSN 882 or via email at francisco.palomo@navy.mil, or the SRB Help Desk at (901) 874–2526/DSN 882.

16. We will continue to assess retention behavior and adjust SRB award levels accordingly.

17. This NAVADMIN will remain in effect until superseded or canceled, whichever comes first.

18. Released by VADM W. F. Moran, N1.//

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APPENDIX C. INFLATION INDEX

Inflation Index	
Fiscal Year	Multiplier
2011	1.0551
2012	1.0390
2013	1.0218
2014	1.0100
2015	1.0000
Formula	TY\$ * Multiplier = FY15\$

Table 1. Inflation Index. Source: Naval Center for Cost Analysis (2016).

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